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Ontario Energy Board

ANNUAL REPORT

FISCAL YEAR ENDED MARCH 31, 1978

ANNUAL REPORT

FISCAL YEAR ENDED MARCH 31, 1978





Ministry of
Energy

416/965-4286

Queen's Park
Toronto Ontario

April 27, 1978.

TO THE HONOURABLE PAULINE M. McGIBBON
O.C., B.A., LL.D., D.U. (OTT)

Lieutenant-Governor of the Province of Ontario

MAY IT PLEASE YOUR HONOUR:

I take pleasure in submitting the Eighteenth
Annual Report for the Ontario Energy Board
for the fiscal year ended March 31, 1978.

Respectfully submitted

A handwritten signature in black ink, appearing to read "Reuben Baetz".

Reuben Baetz,
Minister



Ontario
Energy
Board

416/965-6078

9th Floor
14 Carlton Street
Toronto Ontario
M5B 1J2

April 18, 1978

Honourable Reuben C. Baetz
Minister of Energy
12th Floor, 56 Wellesley Street West
Toronto, Ontario
M7A 2B7

Dear Mr. Baetz:

I have the honour to present herewith the Annual Report of the Ontario Energy Board for the fiscal year ended March 31, 1978.

Respectfully submitted,

A. B. Jackson
Chairman

EIGHTEENTH ANNUAL REPORT

OF THE

ONTARIO ENERGY BOARD

FISCAL YEAR ENDED MARCH 31, 1978

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ONTARIO ENERGY BOARD

ANNUAL REPORT

Fiscal Year Ended March 31, 1978

INTRODUCTION

[The activities of the Board during the fiscal year ended March 31, 1978, continued at the high level of the previous three years. The principal matters dealt with were rate proceedings and rate-related proceedings involving Ontario Hydro and the three major natural gas distributors: The Consumers' Gas Company ("Consumers'"), Union Gas Limited ("Union") and Northern and Central Gas Corporation Limited ("Northern and Central"). These matters alone required the Board to sit for 197 days, in panels of two or three.] Hearing costs of about \$500,000 were levied against the four utilities.

[Escalating costs of gas and distribution meant that the gas distributors were before the Board on a continual basis. Gas cost increases were attributable almost entirely to the fact that the Federal Government increased the Toronto city-gate price of natural gas, which determines what the distributors pay to their supplier TransCanada PipeLines Limited ("TransCanada"), from \$1.505 per thousand cubic feet ("Mcf") to \$1.68 per Mcf on August 1, 1977, and to \$1.85 per Mcf on February 1, 1978.]

[The Board completed the Phase II (rate design) portion of applications of Consumers', Union and Northern and Central. Phase I (rate base, return thereon and reasonable return) determinations in new proceedings were completed

for Consumers' and were in progress for Union and Northern and Central at the end of the fiscal year.] As part of these major rate proceedings the Board heard numerous applications for interim relief due to increased gas costs or distribution costs or both.

Regarding electricity, the Minister of Energy again referred to the Board for investigation and report the bulk power rates of Ontario Hydro, in this case those proposed for 1978. In separate hearings carrying through the fiscal year and beyond, hearings that could be described as generic hearings, the Board dealt with a reference relating to the principles of power costing and pricing appropriate for Ontario Hydro ("Hydro"). The matter had been referred by the Minister to the Board in the previous fiscal year.

The Board also considered rate applications from smaller gas distributors and from a steam distributor, and other types of applications from the major gas distributors. All these matters are detailed in this Report.

COMPOSITION OF THE BOARD

At the end of March, 1978, the Board consisted of nine Members, namely:

A. B. Jackson, Q.C.	Chairman
I. C. MacNabb, P.Eng.	Vice-Chairman
W. W. Stevenson, Ph.D.	Member
S. J. Wychowaneec, Q.C.	Member and Vice-Chairman-Designate

H. R. Chatterson, B.Comm.	Member
J. C. Butler, P.Eng.	Member
J. R. Dunn, P.Eng.	Member
D. M. Treadgold, Q.C.	Member
R. H. Clendining, P.Eng.	Member and Chairman-Designate

In July, 1977, Mr. Treadgold, who had previously been a part-time Member of the Board, became a full-time Member. Mr. J.A.W. Whiteacre, Q.C., a part-time Member, resigned from the Board in November, 1977. In February, 1978, three appointments affecting the Ontario Energy Board were announced by the Office of the Premier. Mr. MacNabb was appointed Executive Co-ordinator-Designate of the Strategic Planning and Analysis Group in the Ministry of Energy. Miss Wychowanec was appointed Vice-Chairman-Designate of the Ontario Energy Board; and Mr. Clendining was appointed a Member and Chairman-Designate of the Ontario Energy Board to succeed Mr. Jackson upon the latter's retirement at the end of April, 1978. Mr. Clendining was formerly Senior Advisor, Crude Oil and Natural Gas, in the Ministry of Energy.

Dr. Stevenson has been a member of the Royal Commission on Electric Power Planning since its inception but until recently has given much of his time to the work of the Ontario Energy Board. It is expected that during the next fiscal year the work of the Royal Commission will leave him with little or no time for the work of the Board.

Principal Staff of the Board were:

Board Secretary	S.A.C. Thomas
Energy Returns Officer and Manager, Financial Analysis	O. J. Cook
Director of Operations	D. D. McLean
Board Solicitor	L. Graholt
Special Projects Officer	D. R. Cochran
Manager, Engineering	C. J. Mackie
Board Engineer	H. Strozyk
Manager, Rate Design	H. M. Kast
Financial Analyst	A. Meddows-Taylor
Financial Analyst	A. Parekh

SUMMARY OF PROCEEDINGS BEFORE THE BOARD

During the 1977-78 fiscal year 111 proceedings were commenced before the Board: 99 by application, 4 by ministerial reference and 8 by letter request. A classification of proceedings completed during the fiscal year is as follows:

Under The Ontario Energy Board Act

	<u>Number</u>
Rates and other charges for gas	19
Gas Storage	6
Leave to construct pipelines	4
References by Ministers	4
Miscellaneous orders	8

Under The Municipal Franchises Act

Approval of gas franchises	63
Certificates	<u>3</u>
TOTAL	<u>107</u>

As in the past, hearings were held at locations convenient to interested parties. Ten were held outside Toronto: at London, Sarnia and Cayuga.

ANTI-INFLATION PROGRAM

As outlined in the annual report for fiscal 1976-77, the Board has been applying the Anti-Inflation Guidelines in regulating the rates of the privately-owned gas distributors. The two publicly-owned gas distributors in Kingston and Kitchener continue to be price monitored by the Energy Returns Officer. In each case the rates are tested by the profit margin rules set out in section 18 of the Anti-Inflation Guidelines.

In accordance with the Reference from the Minister of Energy, the Board strictly applied the spirit and intent of the Guidelines in reporting on Ontario Hydro's proposed bulk power rates for 1978.

NATURAL GAS

Rates

1. The Consumers' Gas Company

(a) Phase II Proceedings

[On April 7, 1977, the Board brought down its reasons for decision on the concluding Phase II (rate design) portion of the main application of May, 1976.]

[The Board commented in the Reasons that with the exception of the treatment of gas costs, there was little variation among the cost allocation studies filed by Consumers' and no conclusive indication of trends was established. The Board stated that it does not expect that cost allocation studies, regardless of methodology, will ever become the sole criterion in rate design. The Board reaffirmed its opinion that there are important factors other than cost involved in rate design, and mentioned that it is essential that a more serious attempt be made by Consumers' to quantify and support the importance of these factors.]

[The Board, referring particularly to blocking and pricing philosophy and to small-volume rate schedules, directed Consumers' to submit a cost or economic basis of support for the rates it proposes in the next Phase II.]

[The Board directed the Applicant to shift a variety of essentially non-residential customers from residential to general service. The Board also directed Consumers' to develop a more specific late payment penalty provision and to redraft the minimum bill provision of its large-volume rate schedules. Subject to these and other modifications the Board approved the rates and other charges proposed by Consumers' and confirmed previous interim rate increases.]

[The effect of Consumers' proposals, and the Board's decision, was that range rates were eliminated

except for Ontario Hydro and interruptible service. The Board stated that it would continue to examine the justification for range rates and that it expected Consumers' to present a cost-based justification of its interruptible pricing policy in the next Phase II.] Consumers' was also requested to examine the question of whether specific rates could be developed for the smaller volume interruptible market and whether contracts for interruptible service should remain confidential.

In its decision the Board stated that the trend is towards de-emphasizing promotional features in rate design. Thereafter, Edward P. Broome, one of the intervenors, petitioned the Lieutenant Governor in Council, requesting that a promotional residential rate that had been discontinued in 1974 be reinstated. By O.C. 2131/77 dated August 10, 1977, the Board's decision in respect of Consumers' residential service rate was confirmed.

(b) Interim Proceedings

[To pass on the effect of the August 1, 1977 TransCanada gas cost increase, the Board granted Consumers' interim relief of 17.553¢ per Mcf effective August 1, 1977, on an across-the-board basis and not subject to retroactive refund. The Board agreed with Consumers' proposal to take into account the benefits of gas in storage in the establishment of an appropriate implementation date for the passing on of the February 1, 1978 increase that had been announced by the Federal Government.]

On October 27, 1977, the Board brought down another interim rate decision. Consumers' had requested additional revenue of \$25,225,000 to permit it to earn a requested rate of return of 10.44% based on budgeted figures for its fiscal 1978 rate base and cost of service.

The Board held that although it has consistently held that it cannot guarantee that a regulated utility will earn a return found to be reasonable, the utility should be given the opportunity to earn such return. A delay in granting any relief until a Phase I decision, the Board felt, could jeopardize Consumers' financial integrity.

On the basis of nine months actual and three months estimated figures for Consumers' fiscal 1977, and the previously allowed reasonable rate of return of 10.1%, the Board allowed interim rate relief of \$12,113,000. The Board accepted Consumers' method of allocating the deficiency to customer classes substantially in accordance with allocated rate base for fiscal 1976, and used 1977 sales volumes as the basis for the determination of the unit increases. The Board did not approve Consumers' proposal to relieve Ontario Hydro of an increase in rates and to distribute the resulting revenue shortfall among the other customer classes. Rate increases were approved subject to retroactive refund or adjustment, for all gas consumed on and after November 1, 1977.

In Reasons for Decision dated February 22, 1978, the Board granted Consumers' further interim rate relief

of 17.051¢ per Mcf to enable Consumers' to pass on the February 1, 1978 TransCanada increase. The relief was granted across-the-board and not subject to retroactive adjustment or refund. It was made effective for gas consumed on and after March 27, 1978, to give customers credit for lower-priced gas in storage on August 1, 1977 and February 1, 1978. In its decision the Board also altered the Btu reference in Consumers' rate schedules from 1000 Btu's per cubic foot to 998.

Finally, in an oral decision on March 14, 1978, the Board granted Consumers' additional rate relief, subject to retroactive adjustment, to be also effective on March 27, 1978. The relief enabled Consumers' to recover the deficiency found in the new Phase I and discussed in the next section of this Report. The Board allowed Consumers' to allocate the deficiency in the same manner as has been allowed in the October 27, 1977 interim decision.

(c) New Phase I Proceedings

[Public hearings on Phase I (rate base, return thereon and reasonable return) of Consumers' new rate application commenced on June 23, 1977, and continued intermittently to October 12, 1977. Final submissions were filed by December 8, 1977, and reasons for decision came out on March 7, 1978.]

(*) The Board made the following findings:

	<u>1976</u>	<u>1977</u>	<u>1978</u>
Utility income	\$63,592,000	\$65,482,600	\$66,259,500
Rate base	646,525,100	690,207,700	734,652,800
Indicated rate of return	9.84%	9.49%	9.02% ¹

<u>Capital Component</u>	<u>Percentage</u>	<u>Cost Rate</u>	<u>Return Component</u>
Long-term debt	55.1	8.89%	4.90%
Preference stock	4.8	7.61%	0.37%
Deferred taxes	3.7	1.14%	0.04%
Common equity	<u>36.4</u>	14.00%	<u>5.09%</u>
	<u>100.0</u>		<u>10.40%</u> ²

1 Before adjusting for the November 1977 interim rate increase. After adjustment it is 9.88%.

2 Reasonable rate of return.

[The Board stated that the comparable earnings test deserves considerable emphasis in determining the cost of equity capital but that in the present circumstances it was necessary for the Board to broaden its areas of investigation. In particular, the Board considered the yield spread above interest rate levels.]

[The Board determined a revenue deficiency of \$7,383,600 on the basis of Consumers' budgeted figures for fiscal 1978, as adjusted, but stated that the accuracy of

these figures would continue to be assessed. In this connection Consumers' was directed to file quarterly figures as the 1978 fiscal year progresses. Having determined that there was a revenue deficiency, the Board confirmed interim rate increases granted during the new Phase I.]

The Board decided to accept for rate-making purposes the consolidation with Consumers' of Underwater Gas Developers Limited, a wholly-owned subsidiary engaged in contract drilling for oil and gas, and requested Consumers' to review the depreciation policy of its subsidiary.

The Board endorsed Consumers' undertaking of a lead-lag study to determine appropriate working cash allowance periods.

The Board observed that Consumers' marketing policy of continued expansion, particularly in the residential market, is supported by a more favourable short-term gas supply outlook and stated that it was generally satisfied with the Company's feasibility criteria but that these should be closely monitored and modified as necessary.

2. Union Gas Limited

(a) Phase II Proceedings

[The Board brought down its Phase II reasons for decision on June 30, 1977. With minor exceptions, all interim rates then in effect were confirmed. New rates, which were amended in reasons dated July 29, 1977, became effective August 1, 1977.]

[In the 1975 Phase II decision the Board had directed Union to develop specific rates to replace range Rates 5, 6, 10 and 11 as contracts expire. In the 1977 Phase II Union complied with the direction but argued that range Rates 5 and 6 should be continued due to the competition from heavy oil. The Board concluded that range Rate 7 would provide Union with the necessary flexibility in its most crucial market and that the same flexibility would not be required under Rates 5 and 6. Union's proposal to lower the minimum daily demand under Rate 7 from 5,000 Mcf to 1,000 Mcf was also denied. The Board directed that Rate 7 contracts, including renewal contracts, should continue to be filed with the Board and be made available to the public but that approval by the Board of the specific contractual rates would no longer be required.]

[Union had filed a cost allocation study for the test year and the Board's consultant filed a critique of it. In its decision the Board stated that in the next Phase II it expected Union to show the degree to which different results would be obtained in important areas where judgment was exercised if other widely accepted principles were used. The Board stated that it expected Union to make a serious attempt to better quantify and support its rate design in future. The Board also stated that it expected Union to begin compiling data so that it would be in a position to do an incremental cost study if so directed.]

(b) Interim Proceedings

[Union requested two interim rate increases during the fiscal year.

The first request was for the August 1, 1977 TransCanada and other gas supplier increases as well as for about \$4 million additional revenue. Union proposed that the additional revenue be recovered by implementing new rates earlier than otherwise would be the case. The Board initially allowed, inter alia, an increase of 17.79¢ per Mcf to residential customers subject to retroactive refund or adjustment and denied the \$4 million increase by allowing the new rates to become effective November 29, 1977, rather than November 1.

Upon the interim order being issued, Union applied to the Board to vary its terms. The application essentially requested the Board to reconsider its denial of the \$4 million and its calculation of the increase in the cost of gas. In its decision the Board again denied the additional revenue sought and upheld its earlier decision regarding the figure representing the increase in the cost of gas. In the result, the increase to residential customers was changed from 17.79¢ per Mcf to 17.75¢.

The second request was to recover some \$16.5 million of Union's claimed revenue deficiency of \$17.3 million and to recover the February 1, 1978 TransCanada and other gas supplier increases. The Board granted, subject to retroactive refund or adjustment, about \$10.4 million of the requested deficiency effective February 15, 1978. The Board permitted the \$10.4 million to be recovered by a 15.6¢ per Mcf increase to residential rates and a 4¢ per Mcf increase

to general service rates. No increase was assessed to large volume customer classes in respect of this portion of the request.

The request to recover the gas cost increase was granted substantially as requested, again subject to retro-active refund or adjustment. An increase of 18.17¢ per Mcf to residential and other fixed rate customers became effective on March 24, 1978. Other customers' rates were increased by slightly lesser amounts effective March 1, 1978.

(c) New Phase I Proceedings

The hearing of this matter commenced on October 17, 1977, and concluded on February 8, 1978, after 19 sitting days. Written argument followed, with Union's reply to be filed in April, 1978.

3. Northern and Central Gas Corporation Limited

(a) Phase II Proceedings

The hearing of Phase II of Northern and Central's main application, which had commenced on September 13, 1976, concluded on May 17, 1977, after 56 sitting days. Final argument was received on July 29, 1977. On November 24, 1977, the Board brought down reasons for decision.

In the Decision, the Board generally accepted the principle of moving away from rates based on historical or promotional considerations and toward cost-based rates. The Board accepted the elimination of separate rates for the

three delivery areas within the Northern Region and the transfer of Central delivery area customers to the Eastern Zone. The result was that Northern and Central now has three rate zones: Western, Northern and Eastern. The late payment charge was reduced from 10% to 5% except for the large volume Special Contract customers where it remains at 1%. All interim rates approved prior to February, 1977, were confirmed.

As this was the first complete Phase II application that the Board had received from Northern and Central, consideration of the cost of service studies, of which 15 were filed, occupied a major portion of the hearing. The Board directed Northern and Central to file a separate cost of service study for each rate zone in its next Phase II and to justify fully any proposed differences in zonal rates of return. The Board also directed Northern and Central to prepare for its next Phase II a three-part pricing guide (customer charge, demand charge and commodity charge) for the residential class in each rate zone to enable the Board to have better cost justification of future proposed rates. Further, as had also been mentioned in Consumers' and Union's Phase II reasons, the Board directed Northern and Central to specify in future hearings how it exercised its judgment between cost and non-cost considerations in rate-making. The Board also directed the Company in future to file studies showing the number, sizes and types of "captive customers" and the proposed revenues from them.

The Board required Northern and Central to phase out the confidentiality of its contracts under its Rate 20 range rates. In a move toward cost based rates, Rate 20 firm contract rates were reduced by 2¢ per Mcf and interruptible contract rates by 5.17¢, the upper limits of the Rate 20 ranges were reduced accordingly, and the lower limits were moved upward. All other rates were increased.

In a departure from previous practice, the Board awarded costs to intervenors, to be paid by Northern and Central. The Board stated that it would award costs to all intervenors in the proceeding who:

- (i) seek them;
- (ii) have a substantial interest in the outcome;
- (iii) have participated in a responsible way; and
- (iv) have contributed to a better understanding of the issues by the Board.

(b) Interim Proceedings

Northern and Central's request for interim rate increases to pass on the August 1, 1977 increase in the cost of gas purchased from TransCanada was granted by the Board subject to retroactive refund or adjustment. The following increases became effective for all gas consumed on and after August 4, 1977:

Western Zone	16.802¢ per Mcf
Northern and Sault Ste. Marie Areas	17.282¢ per Mcf
Central and Eastern Areas	17.551¢ per Mcf

Later another interim application was filed requesting a pass-on of the February 1, 1978 TransCanada gas cost increase of about 17¢ per Mcf and a further rate increase to permit Northern and Central to earn its previously authorized reasonable rate of return of 9.51%. The Board's decision approved the cost of gas increase and allowed the recovery of a deficiency of \$4.8 million, all subject to retroactive refund or adjustment. The decision was unique in Ontario insomuch as it granted a deficiency during a Phase I proceeding before all Phase I evidence had been heard. The total rate increases were as follows and became effective for all gas consumed on and after February 13, 1978:

	<u>Fixed Rate Classes</u>	<u>Rate 20 Rates</u>
Western Zone	24.428¢ per Mcf	18.006¢ per Mcf
Northern Zone	25.108¢ per Mcf	18.686¢ per Mcf
Eastern Zone	25.313¢ per Mcf	18.891¢ per Mcf

4. Others

The Medina Natural Gas Company, Limited ("Medina") received an interim rate increase of 18¢ per Mcf for gas consumed according to meters read on and after January 1, 1978. The increase was due to increased costs of purchased gas.

In February, 1978, Medina applied for a further increase of 30¢ per Mcf and to bring the rates in its Belmont Division up to system-wide rates. It also requested a fixed monthly charge and a purchased gas adjustment clause. The hearing was held late in March but no decision had been rendered by the end of the fiscal year.

Inter-City Gas Limited ("Inter-City") was granted an interim rate increase of 16.63¢ per Mcf for gas billed after October 1, 1977, due to increased gas costs from its supplier, ICG Transmission Limited.

In a later decision Inter-City's general service rates were increased by 31.42¢ per Mcf and interruptible service rates by 14.16¢ per Mcf for gas billed on and after March 14, 1978, due to increased gas costs. 16.60¢ of the 31.42¢ added to the general service rates resulted from Inter-City's decision to purchase more of its gas supply on a firm basis. The Board also approved new temporary winter service rates applicable to Ontario and Minnesota Pulp and Paper Company Limited of Fort Frances, Inter-City's largest customer.

In October, 1977, the Board granted a rate increase of about 55¢ per Mcf to Wellandport Gas Company Limited of Dunnville. The Company's minimum bill and reconnection charge were also increased. These increases in rates and other charges were granted without a hearing for a period of not more than a year.

Accounting Orders

Under the Uniform System of Accounts, Union requested approval to defer in a special inventory account the cost of gas purchased from Petrosar Limited from the date of first delivery until Union and Northern Natural Gas Company of Omaha have received all necessary regulatory approvals for the sale and purchase of the gas. Union also requested approval of the same accounting treatment for the carrying charges on such gas. In November, 1977, the Board granted approval without prejudice to the Board's rate making treatment.

In December, 1977, the Board approved Union's requested depreciation rate applicable to an aircraft acquired earlier in the year. The rate was made effective on April 1, 1977.

Gas Storage

During the fiscal year Union received permission to operate two new gas storage areas. The Board recommended to the Lieutenant Governor in Council that some 1,130 acres in Dawn and Enniskillen Townships (the Dawn 167 Pool) and some 720 acres in Enniskillen and Moore Townships (the Enniskillen 28 Pool) be designated as gas storage areas. The lands were so designated respectively by Ontario Regulation 524/77 filed July 22 and Ontario Regulation 582/77 filed August 16. After each designation the Board issued an order authorizing Union to inject gas into, store gas in and remove gas from the designated area.

The Board also approved the parties, term and storage in respect of agreements whereby Union would store gas for TransCanada and for Northern Natural Gas Company of Omaha, Nebraska. The TransCanada agreements are for a term of about one year and provide for the storage of gas tendered by TransCanada for storage after making allowance for Union's needs and those of Union's other storage customers. The Northern Natural agreement provides for an initial term of about five years and a maximum storage balance of 10 billion cubic feet ("Bcf").

The parties, term and storage in respect of a proposed agreement between Tecumseh Gas Storage Limited and Consumers' were also approved by the Board. It provides for an initial term of 18 years and storage increasing from 44 Bcf per year to 50 Bcf.

Drilling

The Minister of Natural Resources is required to refer to the Board for report applications to him for permits to drill gas or oil wells in designated gas storage areas. The Board dealt with three such matters during the fiscal year.

Meylow Oil Company Limited applied to drill in the Dawn #1 Pool, Tecumseh Gas Storage Limited in the Seckerton Pool and Consumers' in the Crowland Pool. In each case the Board recommended that the permits applied for should be granted. A public hearing was held in the case of the Meylow application.

Pipelines

In June, 1977, the Board granted Tecumseh Gas Storage Limited ("Tecumseh") leave to loop its transmission line from its storage facilities in Moore Township to Union's facilities in Dawn Township. In its decision the Board commented that Tecumseh's undertaking to make its environmental report a part of the specifications of the contract for the construction of the pipeline was a procedure that should be adopted by other companies constructing pipelines in Ontario.

During the fiscal year the Board granted Union leave to construct transmission lines from its Dawn-Trafalgar lines to Tillsonburg and from its system in Moore Township to the facilities of Petrosar Limited. The Board refused Union's application to build a distribution line and station in London on the grounds that it was possibly unnecessary and certainly premature.

At the end of the fiscal year the Board authorized Union to commence construction of some 11 miles of 42-inch line from the Township of Lobo to the Township of London. That construction would be part of Union's program to loop sections of its Dawn-Trafalgar transmission lines. In its reasons for decision the Board discussed the question of what constitutes economic feasibility in the case of expansion of transmission capacity.

Exemptions

Five orders were granted exempting Union from obtaining leave orders to construct certain minor transmission lines. These were to be located in the City of Nanticoke, between the Townships of Delhi and Norfolk, in the City of London, in the Township of Flamboro and from the Township of Westminster to the City of London.

Petrosar Limited was also granted an exemption to construct a certain transmission line in the City of Sarnia.

Franchises and Certificates

During the fiscal year the Board approved the terms and conditions and period of 63 gas distribution franchises for the following distributors in the following municipalities:

Consumers' - the Towns of Alliston, Almonte,
Arnprior, Carleton Place, Collingwood, East
Gwillimbury, Lindsay, Newcastle,
Penetanguishene, Perth, Smiths Falls,
Stayner and Whitchurch-Stouffville, the
Villages of Elmsvale and Tottenham, the
Townships of Beckwith, Charlottenburg,
Drummond, Elizabethtown, Front of Leeds and
Lansdowne, Georgina, Goulbourn, Horton,
Kenyon, Kitley, Lancaster, Lochiel,
Longueuil, March, McNab, Montague, North

Elmsley, Ops, Oro, Pembroke, Ramsay, Ross,
South Elmsley, Stafford, Sunnidale, Tay,
Tecumseh, Tiny, Uxbridge, West Carleton
and West Hawkesbury.

Union - the City of Owen Sound, the Towns of
Halton Hills, Milton, Simcoe and Thornbury,
the Villages of Newbury, Port Stanley and
Wardsville and the Township of St. Vincent.

Northern and Central - the Towns of Kenora and
Prescott, the Townships of Augusta, Cornwall,
Edwardsburgh, Hagar, Matilda and Pittsburg.

Except in the cases of the Township of Oro and the
Town of Newcastle the distributor had previously been
franchised in the municipality. In those cases the Board
also granted a certificate of public convenience and
necessity to Consumers'.

In each case except that involving the Township of
Augusta the Board declared and directed that the assent
of the municipal electors to the by-law granting the
franchise was not necessary. In the case of the Township
of Augusta Northern and Central had not been able to come
to an agreement with the Township as to the term of a new
franchise and therefore applied to the Board to extend the
term of the old franchise. The Board did so, for a period
of 10 years.

Discontinuance of Service

In January, 1978, Union applied for leave to discontinue distributing gas to 53 customers on 16 sections of pipeline in the Regional Municipalities of Haldimand-Norfolk and Hamilton-Wentworth. The application was Union's third in that geographical area. The hearing was commenced and is to be continued in April, 1978.

STEAM RATES

A new tariff of steam rates, including a slight change in the fuel adjustment clause, was approved for Industrial Steam Limited of Ajax as of August 1, 1977, for a period of not more than one year. The Company's franchise in Ajax expires early in 1980.

The Board said that in the absence of a more acceptable proposal it would continue to consider a return of 10% on a rate base of \$1,000,000 as being reasonable. The rates accepted by the Board were based on annualized estimated figures for utility revenues and costs for 1977, including a depreciation allowance of \$78,000.

The approved rate increases amounted to an average of about 15¢ per 1000 lb. whereas the Company had applied for about 85¢ per 1000 lb. The Board also decreased the delayed payment penalty from 10% to 5%.

ONTARIO HYDRO

Bulk Power Rates

[Terms of Reference were received from the Minister of Energy in June of 1977 instructing the Board to investigate Hydro's proposed bulk power rates for 1978. The proposed rates represented an increase of about 11.3% to the 352 municipal utilities and about 12% to the 101 direct industrial customers. The Board was cautioned by the Minister that "1978 Bulk Power Rates should be increased only on the basis of, and to the extent that, the Ontario Energy Board conclusively establishes such a need". The Board was instructed that the following financial criteria were appropriate for 1978:

- (a) a debt/equity ratio not greater than 85/15;
- (b) a times-interest-earned ratio not less than 1.30.

The Board was also instructed, inter alia, to report on the progress Hydro was making towards implementing the following government policies:

- (a) That Ontario Hydro reduce the high level and rate of growth predicted in Operations, Maintenance and Administration budgets by putting new effort into improving productivity, cutting costs, and increasing the efficient use of its plant.
- (b) That Ontario Hydro modify its budget process to highlight performance and to make the timing of the process more responsive to the current financial environment.

The hearing commenced in July, 1977, and concluded after 16 hearing days. Twelve interventions were received and some of the intervenors participated in the hearing. The interest of Lake Ontario Steel Company Limited was restricted to the planned phasing out of electric furnace rates. The interest of Dow Chemical of Canada, Limited was restricted to the contract between Hydro and Petrosar Limited for the supply of fuel oil. Dow's motion to the effect that the terms of the contract should be either made public or released to the Board for confidential perusal was denied by the Board.

During the hearing Hydro indicated that the bulk revenue for 1977 was expected to be \$108 million in excess of that permitted under the AIB net margin test. Hydro wished to rebate this excess by crediting 1978 monthly bills.

In its report to the Minister of Energy dated August 31, 1977, the Board expressed the following opinions:

1. Ontario Hydro's forecast of bulk power costs for 1978 is excessive by an amount of \$30 million.
2. Electric furnace rates should be phased out over a period of five rather than three years, and the additional rate increase to this class of customer in 1978 should be adjusted accordingly.
3. All proposed Bulk Power Rates for 1978 should be adjusted downward by Ontario Hydro in an equitable manner to the level indicated.

4. The amount of the 1977 revenues that are excess revenues under the Anti-Inflation program, should be determined as soon as possible after the end of the year and credited to customers in 1978 by deferring the 1978 bulk power rate increase.
5. Ontario Hydro should ensure that the credits under the Anti-Inflation program are passed on to the ultimate consumer in an appropriate way and should use its powers of regulation of the municipal distribution systems in order to do so.

The Board was unable to find a basis for concluding that there should be no rate increase for 1978. However, taking into consideration the \$30 million reduction in the revenue requirement and the 1977 excess revenue rebate, the average increase to bulk power customers was calculated to be about 4%. The Board recommended that the rebate be accomplished by a deferral of any rate increase until about August of 1978 at which time a 9 3/4% increase would be necessary.

The Board also recommended that by April 30, 1978, the Minister obtain a report from Hydro regarding its efforts to increase productivity and improve the budgetary process. The Board suggested that the Report would be helpful in dealing with 1979 bulk power rates.

The recommendations of the Board were generally accepted by Hydro, although a net rate increase of 3½% was implemented on January 1, 1978. The 1977 excess revenue is being rebated on a monthly basis according to 1978 consumption.]

Costing and Pricing

The public hearing on the principles of electricity costing and rate making appropriate for use by Ontario Hydro progressed steadily through the fiscal year with the completion of Phases I and II and the near completion of Phase III. A brief description of the Phases in the order they are to be heard is as follows:

- Phase I - the theoretical foundation of marginal pricing, alternative pricing objectives and an overview of Hydro's "Electricity Costing and Pricing Study"
- Phase II - revenue requirement, depreciation and cost allocation
- Phase III - time-of-use costing methodology and demand elasticity
- Phase IV - rates and their impact

Of the 36 intervenors registered, 11 have actively participated in varying degrees in the presentation and testing of evidence. The Board has sat for 59 days with 8,630 pages of transcript being produced.

The taking of Phase I evidence concluded on June 30, 1977. Thereafter the Board heard argument on the issue of costs and on a motion brought by the Association of Major Power Consumers in Ontario ("AMPCO"), one of the intervenors.

The AMPCO motion requested the Board, inter alia, to render an interim report to the Minister of Energy requesting the Minister to take back the Reference to the Board because Hydro had proceeded incorrectly in proffering its Study. In Reasons for Decision dated July 26, 1977, the Board denied the motion and directed that the hearing of the Reference should continue. The Board also awarded costs in differing amounts to those intervenors taking an active and effective part in the hearing of Phase I.

Inco Limited and the Ontario Municipal Electric Association, two other intervenors, had previously given notice of a motion requesting a postponement of the hearings until Hydro had produced certain further materials. Hydro agreed to provide most of the requested materials, and had set a timetable for their filing. Based on the proposed timetable, the phases of the hearing required rescheduling, which was done by Board procedural order.

Phase II proceedings concluded on November 25, 1977, and resulted in an interim report to the Minister dated March 13, 1978, entitled "Depreciation Policy and Procedures For Major Fixed Assets In Ontario Hydro". In the Report the Board recommended the adoption of most of Hydro's proposals relating to depreciation. In some instances the Board recommended that further hearings be held. The Board also recommended that the proposed change to the straight line

remaining life procedure be deferred until either the Anti-Inflation Guidelines are removed or Hydro is exempted from them.

Phase III commenced on January 10, 1978, and proceeded for 17 sitting days after which time the major portion of evidence had been presented and tested. The matter was then adjourned sine die into the next fiscal year for the examination of two studies that are being prepared.

By the end of the fiscal year the Board had not yet rendered its decision on a motion by AMPCO that was heard on February 17, 1978. The motion basically requested further studies to be made by Hydro using certain marginal cost and historic cost methodologies.

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